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Delaware Department of Transportation
Dover, Delaware

November 21, 2006

Ladies and Gentlemen:

We have audited the financial statements of Delaware Department of Transportation (DELDOT), for the year ended June 30, 2006, and have issued our report thereon dated November 21, 2006. In planning and performing our audit of the financial statements of DELDOT, we considered internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. An audit does not include examining the effectiveness of internal control and does not provide assurance on internal control. We have not considered internal control since the date of our report.

During our audit we noted certain matters involving internal control and other operational matters that are presented for your consideration. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve internal control or result in other operating efficiencies and are summarized in the attached Appendix A.

Our audit procedures are designed primarily to enable us to form an opinion on the financial statements, and therefore may not bring to light all weaknesses in policies or procedures that may exist. We aim, however, to use our knowledge of the DelDOT's organization gained during our work to make comments and suggestions that we hope will be useful to you.

We would be pleased to discuss these comments and recommendations with you at any time.

This report is intended solely for the information and use of the Department of Transportation, management, Office of the Governor, Comptroller General, Attorney General, Management and Budget, Department of Finance and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

KPMG LLP



DMV POLICY MANUAL

Observation

Division of Motor Vehicles (DMV) does not have a standardized policy and procedures manual for cashiers and financial related employees. The DMV has over 175 employees who handle financial transactions and the guidance would insure consistence application of DMV practices among the employees.

Recommendation

DMV should dedicate the resources necessary to establish a standardized employee policy and procedures manual. The manual should be reviewed as part of new employee training and periodic staff meetings to insure consistent application of the practices.

Management's Response

DMV does have some basic financial policies and procedures documented; however, the division realizes the need for a standardized policy and procedure manual and for better financial controls and security in general. Within the past year, the division has made several strides toward addressing these issues.

The division has installed security cameras in all the cash rooms throughout the division. These are the rooms in which the daily receipts are counted and prepared for deposit. DMV now is capable of monitoring these rooms at all times. The division also has instituted the use of currency counting equipment in all the cash rooms to speed the counting process, to minimize mistakes and to improve reporting capabilities.

Also, the Department of Transportation internal auditors have been engaged to conduct a study of DMV's financial procedures. This study is nearly complete and will be very useful as DMV continues the preparation of a formal policy manual.

Once the manual is completed, it will become part of the new employee training program. Additionally, beginning in early 2007, the DMV Audit staff will conduct regular financial meetings with the various sections and locations to discuss any and all financial issues including the consistent application of documented policies and procedures.

DMV WAVIER OF FEES

Observation

DMV cashiers have the ability to waive the fees for registration, transfer, and licensing of vehicles. The June 2006 report shows \$117,000 in waivers. The waivers can be made for not-for-profits, and state & local government agencies. Waivers for non-routine transactions are subject to supervisor approval while routine waivers are not subject to management approval. All waivers also are assigned a code number. The reports that are available to management list the number and dollar amount of waivers by code number. They do not contain any detail on the waivers. Consequently,



what management can see is a summary of the fees waived for a period, but they can not---from these summary reports---review the details or justification for an individual waiver.

Recommendation

All fee waiver requests both routine and non-routine should be reviewed and approved and by a supervisor prior to being entered into the system. Supporting documentation to support for each fee wavier should be collected and maintained to allow for management to review and approval.

If it is determined to not be feasible to approve all routine waivers, Management should implement a review process that includes testing a sample of waivers to ensure that the appropriate documentation was obtained to ensure the wavier was properly determined and in compliance with DMV procedures.

Management's Response

A number of fees routinely are waived according to either Delaware Code or long-standing DMV practice. Other fees are waived on a case by case basis. All non-routine waivers have to be approved by a supervisor and such approval is indicated on the supporting documentation. All fee waivers are assigned a code designating the type and reason for the waiver. The code number is DMV's indicator as to where to look for supporting documentation. Monthly reports of all waivers are available for management review.

ARBITRAGE LIABILITY CALCULATION

Observation

No calculation/analysis is performed to determine if there is an arbitrage liability for bonds issues other than the 5 year time when payment is due. The Bond Official Statements and the Trust Agreement Section 7.22 refer to the requirement to calculate and establish a reserve account. With interest rates increasing the potential for a liability increases in future years.

Recommendation

Currently DelDOT contracts with an accounting firm to calculate the arbitrage liability on bonds on the 5 year payment date for each bond. DelDOT should extend the contract to perform limited procedures to calculate an estimate of the liability for bonds during the 4 years they are not required to perform the actual calculation and fund the required reserves.

Management's Response

DelDOT currently has an established Rebate Reserve Account (025784-002) as required by the Trust Agreement and has contracted Deloitte & Touche LLP to perform computations to determine the rebate amount for all outstanding Bonds for the Computation Period as described in section 148(f) of Internal Revenue Code of 1986. DelDOT will look into the costs associated with expanding the scope of the calculations beyond the required 5-year payment date for all bond outstanding and determine if yearly calculations are warranted.